
Jean Monnet Chair Papers

Problems of Governance Italy and Europe: A Personal Perspective

GIULIANO AMATO



The Robert Schuman Centre at the
European University Institute

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The Jean Monnet Chair

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1994

**The Robert Schuman Centre at the
European University Institute**

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Preface

The Paper is drawn from a series of three lectures given by Professor GIULIANO AMATO in October 1993, under the auspices of the Jean Monnet Chair Lecture Series of the Robert Schuman Centre, European University Institute. In his first lecture, GIULIANO AMATO gives an incisive account into his role in the process of institutional change that had befallen the Italian political system during his experience as Prime Minister. In his second and third lectures, the author turns his attention to the problems of constructing Europe. In addressing "the present problems of Europe", Professor AMATO makes a strong, yet constructive criticism of the problems inherent in the process of European integration. The third lecture, as its title suggests, consolidates the positive criticism from the previous lecture, and examines "the prospects for the construction of an European Union".

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Contents

My experience as Prime Minister	9
Present problems of Europe	21
Prospects for the construction of a European Union	31
Biographical note	39

My experience as Prime Minister

Speaking of my experience as Prime Minister is not as easy as it might seem. Even though I was in office for a relatively short period (by international standards at least – in Italian terms, it was actually an average period, which is part of the problem), a lot of things happened during this experience which provide many interesting topics for discussion.

One such area of interest was international relations at that particular moment; economic and financial reforms were also intense in those few months: when Franco Modigliani invited Italians to re-enter into human race, I felt that his words reflected exactly what I was trying to do. And in this respect, there was actually a major difficulty in convincing people that there was a difference between what they were doing and what they could actually allow themselves to do. However, as a professor of constitutional law, today I am particularly tempted to limit my discourse to considering the aspects of that experience which are more relevant to my profession. And it is also easier in some ways, because, as a professor of constitutional law, I can say in retrospect, that I was lucky to be Prime Minister at the beginning of this legislature. Perhaps, I was less fortunate however, as a politician, but allow me enjoy at least the fact that, after all, I am still, as always, a professor.

On the whole, I was lucky for one particular reason: when I became Prime Minister, the Italian system of government was based upon interrelationship between long-standing customs and rules, which were rather inflexible, and preconceived ideas of the roles of its single actors; namely, of the members of Parliament, the Executive, the Prime Minister, and Ministers. By the time I left office, however, and this was only ten months later, this system had been completely turned upside down. The rules were not the same any more. During this short period of time, what we as Italians call the material constitution (which is an adaptation of Karl Schmidt's concept – an Italian adaptation, thanks to Costantino Mortati, that refers to the substantive rules of the political system and of the system of government) underwent a profound change. We had a material constitution at the beginning of the legislature. We had a very different one after the ten months of my cabinet.

Just to clarify this point, I draw your attention to the peculiar features of the Italian system of government as it grew up after World War Two, which I'm sure you're already familiar with, and the fact that the Italian Republic was founded upon the role of its political parties much more than any other Western

democracy. Political parties were, and perhaps still are, very important in any Western democracy, but their role in Italy is really not comparable with the role political parties play in other democracies. In Italy, they were more important, much more important.

I remember a lecture I gave a few years ago, it was actually three years ago. Most of us were already aware of the fact that political parties had perhaps outgrown their intended purpose and had become too influential. In that lecture, I played a sort of practical joke on my audience, by citing an article of a foreign constitution, which defined the role of the single party within that constitution.

I read this Article, substituting "party" with "parties". Hence, the "parties" will determine the policies, to be followed by the government and the congress, and the "parties" are responsible for the basic values, and so on and so forth. Without explaining precisely what I was reading, I asked my audience whether this applied in the Italian case. After a moment's hesitation, there was the overwhelming response: "Well, yes, of course it does". In fact, the provision I had mis-quoted was Article 6 of the Soviet Constitution. Even though in our case, I referred to "party" in the plural, it is important to realize that this was the kind of role that our parties had in this system.

There is a very straight-forward reason for this, but unless you are familiar with Italy, you are probably not aware of it. It is a very substantial reason that has to do with the origins of this Republic, with the years immediately preceding the birth of the Republic.

After September 8th 1943, what Italians had until then considered to be their State disappeared all of a sudden. The king, who was supposed to represent the State, slipped away from Rome by car during the night, escaping to Southern Italy, and left Italians under the impression that the State was no longer there to perform its tasks. If you have seen the wonderful movie starring Alberto Sordi, "Tutti a casa", you'll understand exactly how the Italians felt at that time. Italians were left on their own to face their problems, either as heroes or cowards. The important thing to understand here, is that nobody was there to tell them what they were supposed to do; no-one to instruct Italian soldiers, the army. At that point, a new authority entered into the political arena, that was of course, the authority of the political parties, whose members served on the liberation committee, "Comitato di liberazione nazionale". They filled the vacuum, and effectively became the voice of the State, because they became the only recognized and visible authority that took on the task of getting Italy back on its feet, dealing with the immense problems relating to the Italian identity (who are we? who are our allies, our enemies?), to the small problems (how do we get milk on a day-to-day basis? how do we get the power we need to light our lamps?).

The parties appointed ministers and as well people to run the municipal companies, thereby taking care of public services in all towns of central or northern

Italy, whether large or small. The "lottizzazione" began at that time – and the parties got used to sending their men as appointees on the public services boards at that time, when nobody else was prepared to do this job.

Initially, our parties had a strong legitimacy in doing what, fifty years later, had become their unacceptable invasion of the public system. However, to understand how it grew up, you have to be aware its beginnings.

These beginnings are important for another reason: when our constitution was written, its protagonists were the parties. They were our founding fathers so to speak. Let us compare the Italian Constitution with the German Grundgesetz. Here there were two constitutions drafted contemporaneously, both born out of very similar past experiences, and both seeking to resolve the same kind of problems. In both Italy and Germany, the founding fathers were aware that they needed a system which would avoid making the same mistakes as before: thus, they needed to develop a more stabilized cabinet, a stronger executive, a more diluted role of the President of the Republic. Both discussed the same kind of constitutional devices, needed to stabilize the cabinet, to reduce fragmentation, and to have more homogeneous majorities in parliament. You find the same discussions in the two countries, and the same kind of constitutional devices were conceived to resolve those problems. They were adopted in Germany, but not in Italy. Why not in the case of Italy?

For a very simple and evident reason, as was openly stated by Giorgio Amendola in our Constitutional Assembly: we don't need these kinds of things in Italy, because we, the parties, are the guarantors of everything. If there is, and this is a very peculiar Italian expression, the necessary political will (in Italian, "la volontà politica" – that magical component capable of making anything happen) the majority is strong; without the necessary political will, the majority is inevitably weak. We will guarantee that the necessary political will exists; we, the parties, and if we cannot, then nobody else can do it, no other constitutional device can substitute our essential role. Thus, there could be no stabilization of the executive, no constructive vote of confidence, none of these things, because the institutions were guaranteed by the political parties. From the beginning then, you have this "original sin", even if originally considered a blessing: weak institutions and strong political parties, and the belief that the system would work because of the strength and the authority injected by those decision-makers from outside.

This is the background to the system that grew up in the post-war years, with an ever-increasing role played by the parties, which was seen in every aspect of public life. Policies were determined and implemented even in their smallest detail in a direct way by the parties or party officials. The activities of the party experts were not limited simply to reviewing the programmes of the majority party in Parliament or those of the coalition parties, but covered equally those of single cabinets proposed by the future Prime Ministers. Further still, any ma-

for bill of the cabinet was subject to prior discussion with the experts of the parties. Here, I have particularly in my mind, the long meetings in the eighties, with the party representative, before a bill could finally be submitted to the Council of Ministers, with the experts of the parties invited in Palazzo Chigi. It was the experts who had become the protagonists, and only after their approval of each and every one of the bills could they be submitted for adoption by the Council of the Ministers.

Neither was party involvement limited solely to policy-making; it extended also to appointments. One might reasonably foresee that this could cover the appointment of ministers, but it didn't stop there. The parties also decided upon the under-secretaries, which might seem less reasonable, and chairmen and members of the boards of any public company or highly important public body or even if of small importance, including the appointment of top executives of public departments. It is beyond any doubt that this was not patronage, but something quite different. Patronage could conceivably be taken to mean that some low-ranking civil-servants might get appointed in order to meet my electoral needs. What we are talking about here is a multiple, pervasive and unlimited spoilt system, because a coalition government multiplies the numbers of spoilt positions – because those are the needs of not only my party, but also your party, his party etc. – and even the areas that remain neutral in other systems are wastefully swallowed up, even though they not sufficient to cover party needs.

When I became Prime Minister, this was the system. I was aware of this, and, I have to admit, familiar with it. This was the system, yet some new elements were permeating it, that were beginning to make things really different. The first was that Italians were becoming increasingly fed up with this kind of system, which they had accepted in the past, but which they were now no longer prepared to accept. Any society is inevitably different fifty years later. In a society that has matured, there are professional qualifications, that are rightly more important than political affiliations. The uses to which parties had put their privileged role had created discrimination, resentment, and public opinion no longer considered them as representative of their voice any more, but rather as a sort of paramount power. The discovery of systematic corruption and bribery, turned the resentment into revolt.

Even though the discovery of corruption exploded like dynamite after the beginning of my term as prime minister, when I took office, I was already aware that the old rules could no longer be applied. I was convinced that change was necessary. I had said this and written on this subject on more than one occasion in previous years. If the parties wanted to save themselves, as essential institutions of any democratic society, then they would have to step out of their government buildings to find their roots once again in public opinion. A political party is strong in a democracy, only as long as it listens to the voice of its people. My needs are represented by you, so you are my voice vis-à-vis the power

of government, the president, or the prime minister. If, on the contrary, I see you as a sort of super power that one-sidedly lays down the law, I no longer consider you as my representative and you have lost your sight of your origins.

This was my analysis, a very simple one, but all the same, one which is quite clear. So, I wanted change, but, as we all know, change does not come easy, especially when you're dealing with the parties, which expected to be able to carry on doing exactly what they had done in the past. The parties expected to be called for my major bills, to give me the names of people to be appointed for any major role or position in public administration or elsewhere. How then did I go about performing my functions? What kind of obstacles had I to overcome?

Looking back on my experience as a whole, I can see a difference between the initial and the final chapters. Initially, I found greater difficulty for me personally and for my cabinet just to loosen the bonds imposed by these rules. After a while, I understood that we were breaking through, and the old rules were losing their hold and would eventually be abandoned. So, changes really took place in those months. Why did this happen? Was it because we were brave and capable of restoring (or perhaps even introducing) in Italy a form of authority from within? Or, was it perhaps because political parties were becoming weaker and weaker, and hence were no longer in a position to hold on to their power as they had done before?

Well, both interpretations might appear feasible. Most probably, we were firm in our resolve to test the Italian Cabinet's capacity to be independent of the parties, in the areas where this was necessary. At the same time, however, the parties certainly were weaker than they had been before. Let me give you some evidence as to the stages of this transition. The first is in relation to the choice and appointment of ministers. On 28 June 1992, I was supposed to go to the Quirinale to submit my cabinet nominations to the President of the Republic. On that very morning at nine o'clock, Arnaldo Forlani, who at that time was the acting General Secretary of the Christian Democratic Party, the major party of my coalition, entered my apartment with a list of names which I had never seen, but, as I came to understand a few hours later, had already been published by "La Repubblica" that very morning. Since I always read the newspapers in the early afternoon, as a professor, this is a habit that I have never changed, not even as Prime Minister, when Forlani appeared, I literally had no idea of what had been published by "La Repubblica" that morning. So you might suppose that I had no part in choosing those names. I would reach the same conclusion too.

However, I discussed the names with Forlani, saying that it would be rather difficult for me to propose some of them to the President of the Republic. We had a long discussion about this, before I left for the Quirinale, and on the way I began to wonder whether I would actually come away with a cabinet, because

the obstacles that lay ahead seemed quite difficult to overcome. I spent more than three hours with Scalfaro, as Italians at that time realized. There were many telephone calls; some names disappeared, others were put forward.

When I left to present the final list of cabinet ministers to journalists, I commented (and I quote in Italian): "L'articolo 92 della Costituzione ha avuto una qualche applicazione" ("there has been a degree of compliance with article 92 of the Constitution"). Article 92 states that ministers are proposed by the Prime Minister, which means that he makes the substantial choice, and does not therefore simply receive a list of names before presenting them to the President of the Republic. Indeed, it is true to say that there had been some compliance. I had received the list of the Christian Democratic names by Forlani. I had also discussed the list of the socialist names with Craxi. I had received the list of liberal party names from Renato Altissimo and the social-democrat proposals from Carlo Vizzini, the respective General Secretaries of these two minor parties. However, I changed some names with the President of the Republic.

At the beginning, then, this was the new development relating to the formation of the cabinet: "a degree of compliance with the constitution", had been achieved. It was a change, but a very limited one. Towards the end of my experience, as some of you well know, I had to replace a lot of Ministers, due to the tidal wave of Tangentopoli, which was sweeping across Italy, touching my Cabinet as well. When I had to replace certain ministers, the role of the Secretaries of the parties either became irrelevant, or, as in the case of Nino Andreatta, was almost reversed. I wanted Nino Andreatta as Minister of the Budget, when I had to replace Franco Reviglio who was taking the position of Minister of Finance. So, I called Mino Martinazzoli, then the General Secretary of the Christian Democratic Party, to request his assistance in convincing Andreatta to accept his nomination. So, you see the difference, I did not receive the name from him, but I myself had decided upon this name, and since the future appointee was a Christian Democrat, Martinazzoli simply helped me in overcoming his initial reluctance.

Then Paolo Baratta entered the Cabinet. Paolo Baratta, as we say in Italian, which is difficult to translate in any other language, is "di area socialista", ie. not belonging directly to the party, but of socialist persuasions ("area"). Despite this, he was not put forward by the socialists. As most of you probably know, I had a lot of problems with privatization, because of misunderstandings among the three competent ministers, so I wanted a Minister who could form a team with the others. Having this in mind, I said to Barucci and Andreatta, "please, give me the name of somebody that has your esteem and that you consider as a potential member of a team with you, to manage privatization". They gave me the name of Baratta, and that's how Baratta was chosen. There again, you can see the difference from the initial stage.

The second area of change relates to appointments in state industries. As you probably know, we changed the legal status of our state industries, which were public entities before my cabinet. By decree, these public entities became private corporations overnight: the owner was still the state, but their status became private, making a very fundamental difference, because, from that moment on, the civil code applied. In practice, this means that, appointments to the Boards of Directors are made by General Meeting, which have to be decided within fifteen days of their being convoked, without any possibility of postponement. Immediately, after the convocation of General Meetings, telephone calls began to pour in from the parties. "Well", they said, "we need time you know. Delay the General Meetings". "We cannot any more" we replied, "the Civil Code applies now". This was unheard of in Italian politics. According to the Civil Code, you can summon a first and a second General Meeting, if necessary, but you cannot extend the deadline initially indicated. Decision-making could no longer be avoided.

The parties wanted their experts in the boards of the new companies. They were ready to accept that some (but only some) of the names would be changed, but they should still remain of that persuasion ("di area"). By the time we were notified of the parties' standpoint (I'm quite frank and sincere on this point, because I want to give you the sense of the progressive change), we had already prepared a compromise for them, by looking for "experts" that had never had anything to do with the parties, but whom we knew were to be of right persuasion ("di area"). We had made a list of possible names but we were not fully satisfied. The outcome was grey, but it was potentially the only compatible (and not even entire) solution with which to bargain against the will of the parties.

At that point, I went to the Quirinale with my cabinet ministers, and I asked the following question to my colleagues and to the President of the Republic: "The Constitution of this Republic says that, on matters of policy, we have to comply with our majority, otherwise we are outside the rules of our parliamentary system. Now, I don't feel like complying with our parties' will in this case, it would be a huge mistake. Should we resign? Is this a matter of policy?" I had the answer in my head, but it was my role to keep it there, because with the answer of the Prime Minister at the beginning of the discussion, the discussion is over. The right answer, that this is not a matter of policy, was given first by Giovanni Goria. The other ministers agreed. The President of the Republic was happy that this was our answer, and said, okay, go ahead, and there is no reason to have doubts about it.

I went back to Palazzo Chigi with the competent ministers, Guarino, Barucci, Reviglio, and we decided upon a common formula: in each of the companies, there should be a new board of three members. One embodying continuity – i.e., the former chairman; then the former general director; and finally, a general director responsible to each of the three departments of the three ministers.

This was a sort of revolution. I shall go into detail here, because, if you want my opinion, and this is not only my opinion, the "material" constitution changed that very night, and this was the breaking point with the past. When we took this decision, I, as Prime Minister, together with the three competent ministers, and without saying anything to anybody else, had in fact encroached upon the most exclusive prerogative of the political parties, according to the pre-existing basic rules of the country. I was so aware of that, that I took a pre-emptive, but essential measure: the morning after I would disappear. I had learnt that, before a difficult decision is finally taken, you are aware of the pressures to which you may be subjected to change your mind, so the best thing you can do to step back, to stall – since you don't know what may happen in human relations, not even in your own mind – or in other words, disappear.

The morning after, as always, I went to Palazzo Chigi, but at eleven o'clock, I left the Palazzo in an unknown car, without the police escort which usually indicates the presence of a Prime Minister, and went home unnoticed. I had a lot of books in terrible disarray on my shelves, and I wanted to use those few hours simply to put them back in some kind of order. I called Palazzo Chigi, and gave instructions, that no telephone calls should be put through, except for Minister Guarino's call, in the early afternoon. Guarino was supposed to call me, as soon as the General Meetings had made their decisions. I divided my time between my books and the tv set, watching the final of the ladies tennis singles at the Olympic Games, between Arancia Sanchez and Steffi Graf. I am and always will be a fan of Steffi Graf, and on this day I had to watch her loosing miserably against Arancia Sanchez. And this, happily for me, became my main concern. After Steffi lost, Guarino called me, I sent four letters to the secretaries of the coalition parties, to inform them of the decision. I said to them that I had considered it to be in their own interests to step down in this area, and I repeated my opinion, that the parties would be well advised to return to the principles of a civil society, as we say in Italian, instead of hiding in public buildings. Whether this was accepted or not, the decision was taken and nobody challenged it afterwards. But when I went back to Palazzo Chigi, I was told that, during my absence at home, certain under-secretaries of the coalition parties had come and inspected my rooms, looking for me hopelessly.

A few months later, when we chose the new president of ENI, I was with my ministers consulting "Who's who", just to be sure of the record of single names that were passing through our minds. The only qualifications considered, were whether this or that person's appointment would lead to a propitious integration with the other members of the board, whether the nomination would be acceptable amongst the sub-holding companies, both in terms of domestic and international activities. You see, this makes the difference.

I turn briefly now to policy-making – the third area of change: there were no meetings with the experts of the parties, as previously, only consultations with the parliamentary groups on broad matters of policy or on the legislative treat-

ment of our bills. I remember that, in the case of the outlines for the decree reforming the public health system, the then Minister of Health, De Lorenzo, held a meeting with the experts of the parties and was summarily invited by the Prime Minister to stop with these meetings. This is the only case in this area that I remember.

With these experiences in mind, I can now go back to answering the questions I raised earlier, namely: how did the system work with these new relationships amongst the actors? How did the Prime Minister, Ministers, the Cabinet, Parliament interact in the new framework that was taking shape?

I tested the new relationship between the Prime Minister and Ministers, with a much stronger Prime Minister than had ever been seen before. Of course, it would be satisfying for me from a personal point of view, to imagine that this new relationship was due to my being a marvellous Prime Minister, but this was not necessarily the main reason, and certainly not the only one. At least one other factor should be taken into account: the fact that the Ministers no longer spoke in the Council as representatives of their parties, as they had done in the past. Again, I can clarify this, by pointing to the differences between my knowledge of past prime ministers' experiences and my own.

Let us suppose, for example, that in a previous cabinet – and this was not my case – a Prime Minister had a policy in mind, and put forward his proposal, and I, as a Minister in the cabinet, but belonging to another party, disagreed with it. In this case, the Prime Minister would try to persuade me to accept his policy. I would be reluctant to do so, and at a certain point, say: "I'm sorry, but it's a political matter". These words mean that a Cabinet Minister is speaking as a representative of one of the parties of the coalition and is simply notifying a veto of his party against this kind of policy. At that point, the Prime Minister has to stop, to convene the secretaries or other representatives of the parties of the coalition, otherwise he cannot proceed. Hence, in this system, a Minister can be on an equal footing with the Prime Minister, because he's not representing a ministry, but one of the parties of the coalition.

Let us turn now to my case: my ministers came to me and said: "Now, Giuliano, this is not a technical matter, this is a political matter, so, please, remember that the decision is yours and the responsibility is yours". The words are almost the same, but the meaning is totally different. My Ministers saw the political profile of the problem, but did not consider it a reason for a political veto coming from them. On the contrary, they considered it as a reason to leave the decision to me, because I was the Prime Minister. We can draw the conclusion that the fact the parties were weaker, and ministers were representing their own departments and not their parties, gave the relationship between the Prime Minister and Ministers a new dynamism, and clearly a new profile.

As this was in many ways a new relationship between the Cabinet and Parliament, because, many things that had previously passed through the parties, were now passing through parliamentary groups, which at the same time made parliamentary groups more important and the Cabinet more responsible for its own decisions. In the former system, the parties had wanted to appose their signature to the bottom of every detailed text, before passing it to the Cabinet for adoption. Parliamentary groups were influenced by their role in Parliament, which was necessarily to mediate, and did not want to be quite so outspoken. They wanted the Cabinet to determine the details, and debated them before Parliament later on.

On the other hand, there were some new roles, which led to new dichotomies. The source of legitimacy of previous cabinets was to be found in the parties. What was the source of legitimacy of mine? As far as fiscal policy was concerned, I was strong and successful, even in Parliament, when I could rely upon the backing of trade unions and entrepreneurs: social consensus was replacing allegiance to the parties. As to other decisions, those which were more inherently political in nature, the Cabinet was subject to the supportive tutelage of a new, informal constitutional body, which is not provided for by the Constitution, the members of which were, and probably still are, the President of the Republic and the Presidents of the two Chambers. This is a very peculiar feature of the transition, as to which I can give no more than a tentative explanation. At the beginning, the parties had been recognized as the pillars of the system, in so far as they were the first and most direct representatives of the community. Now they were no longer accepted by that community, yet still, on the basis of our unchanged democratic values, it was essential to maintain a connecting link with this sentiment. This connecting link was identifiable through the President of the Republic, together with the Presidents of the two Chambers, for the simple reason that they were above the parties, and as far removed possible from them.

Whether this sort of de facto evolution is compatible with the principle of accountability, by no means a minor requirement in a democracy, is questionable. What is clear to me is that it has a precedent in the bold initiatives of President Pertini, that, after some years, appear as the first signs of the parties' crisis. The one time President realized that he had been allowed to do what he had done, because he had represented public opinion more than the parties themselves. And this had created a precedent, one which was initially not understood in relation to the events in these last months.

I now go to my final point. My experience was the experience of a transition. Will something of it remain in the future? This could be said to be the crux of my presentation. I would say that a Cabinet devised by the Constitution, as a body without an inner authority, and dependent on the external support of political parties, has succeeded in finding a new capability and new effective roles for its members. I reserve the same positive judgement for the relationship be-

tween the executive and parliament. Political support for its legitimacy has been weak and a more stabilized system will have to sustain it. Can this be achieved, whilst at the same time preserving the positive features which emerged during the transition? Or must we presume that the new parties, because there will be new parties, will be the same as they were in the past? Will these areas of institutional authority be submerged again by the paramount power and authority of the parties, or will something remain? Will the peculiar role of the President of the Republic still be accepted or will he, too, have to restrain his role again, while the system finds new legitimacy?

Personally, I think that some of these transitional features should remain as part of the future. And I am also inclined to believe that a return to the past would encounter many difficult obstacles put in place by my own reforms: consider, for instance, the privatization of public companies, and how it potentially limits the possibility of future encroachment by the parties. Of course, the answer will also depend upon the structure and the conduct of these parties. One only has to think of the Lombard League in this respect, with its centralized bureaucratic structures, of its links with "representatives" in local government, and in Parliament. This leads me to the conclusion that Italians who do not believe in this kind of party, would consider the previous fifty years as a wonderful golden age. But we must remember that this is only one piece of an unknown puzzle.

Present problems of Europe

Europe today is faced with a disconcerting paradox. The Maastricht Treaty is going to take effect in just a few days, on November 1st. The process of ratification was extremely difficult but it has been completely achieved. This is indeed a great success. At the same time, precisely when we are congratulating ourselves on the foundation of the European Union, we are forced into the realization that Europe is also breaking apart. How do we explain such a paradox?

When the Treaty was signed two years ago, some of my colleagues, professors of constitutional law, decided that the era of national constitutions had come to an end, and invited students, junior lecturers and young researchers to abandon these anachronisms and devote themselves to the new and only constitution which deserved their attention from then on; the European one, the main elements of which had already been embodied as a treaty.

Those were the expectations of two years ago. I am left wondering whether these young scholars are about to publish now what they started researching upon two years ago. It would be disconcertingly anachronistic, given the present circumstances.

What then has happened in these two years? Let us first consider the goals - there are basically three of them - that we were pursuing years ago. We were pursuing monetary union, which, in the eighties, became the main tenet of the advance towards European integration, which was supposed to take place, following this period of transition with fixed exchange rates. However, now, instead of having a more complete monetary integration, we have a very peculiar European Monetary System (EMS), in which some currencies float out and some others float in 15% fluctuation bands, which suggest anything but integration. At this moment in time, one would tend to believe that monetary integration seems capable of survival only by denial of the very principles governing its conception.

At one time, we were pursuing political integration, and that was perhaps ultimately the long term goal of the founding fathers of the European Community. Of course, this goal was to be reached by a flexible process on step by step basis. Nobody expected sudden and immediate integration amongst twelve countries with different languages, histories and traditions, but the process was intended to move continuously towards that end. In the last couple of years, how-

ever, we have been going in the opposite direction, bowing to the pressures of national and sub-national differences. Instead of seeing more integration at the European level, we are simply witnessing less integration both at national and European levels. The principle of subsidiarity, as has been the case with other integration-oriented concepts, is being interpreted as the basis for strengthening national jurisdictions, rather than finding the justification for extended Community jurisdiction. The upshot of this trend is less Brussels, and more of our national diversities, a phenomenon which is very similar to grassroots or pro-local movements which are typical of some federal systems. They are now proliferating throughout many European countries.

We were also pursuing economic growth, our third main expectation of European integration. I remind you that this was the main argument used in convincing Europeans to accept some limitations to the sovereignty of national jurisdictions, and reduce the significance of national boundaries: with the single market we will have wonderful growth together, our economies will improve, this will create more jobs, a higher rate of growth, better industrial output for all of us, goods and services throughout the whole Community. The results to date tell a different story: we have negative rates of growth, a rate of unemployment which has never been seen in the past, currently at an average of more than 10 percent, and still growing in individual countries. This is quite shocking.

So, what is happening in Europe? Precisely the opposite to what we originally set out to do. Instead of moving progressively towards integration, monetary union and growth, we are going towards disintegration, a monetary mess, increasing unemployment, and less growth.

If we read the explanations given for this unhappy phase which Europe is passing through, then opinions tend to oscillate between two poles, as if one opposed the other (although this is not necessarily the case), which I'll now briefly explain.

On the one hand, the first body of opinion claims that the present state of affairs in Europe can be explained as the product of a combination of events: the end of communism, of German reunification, and of new events which had not been foreseen, that lead to new tension, which rocked the sturdy foundations on which Europe had been built. We were in the process of building a very beautiful Europe, and there was basically nothing wrong with our action. It is not our fault that communism broke down, nor that the reunification of Germany took place, that being one of the factors which pushed us towards integration and towards Maastricht, and later became one of the sources of economic and political difficulties. Neither are we to blame for economic recession, coupled with the overwhelming strength of financial markets which disrupted the EMS, bringing higher levels of unemployment. Intervening factors, and not the claim of pre-existing flaws in our Europe have to be blamed.

On the other hand, the other explanation denies that the Europe we were building was a healthy one. Rather, it was a sick Europe, and had been so for years, but you, as Europeans, as the builders of Europe, could not afford to admit that there were already failures, ambiguities, flaws, loopholes going as far back as its foundation stones. Of course, the intervening factors might have triggered off a cycle of disruption, but they are not the reason for it. The reasons lie in Europe itself.

Both explanations clearly apply, because there are elements of truth in both. And obviously, one cannot choose one explanation to the exclusion of the other. One must strike a balance between the two.

My position tends more towards the hypothesis that Europe was sick already, that it is quite possible that without the intervening factors (the end of communism, recession, etc.) our sickness would have remained ignored as before for I don't know how many years, but in any case, it was there already. And Europeans must have the courage to admit this, because if they don't, it will be quite difficult for them to make headway in the construction of a healthier Europe in the future.

Let us now examine the inner defects of the European construction. Jacques Delors once said, or perhaps even on several occasions, that European history, for the last thirty years, has and still is hiding behind a mask. This statement is basically true, for reasons which mainly relate to the political compromise between very different standpoints on the future direction of Europe. We never did clearly state where we wanted to go. Great Britain was mostly in favour of a free trade area, but no more than that; the others mostly in favour of political integration, which meant building not only a common market, but also political institutions with sovereign powers. But this was not the only divergence. Let us not forget France, that initially wanted the nascent Community to provide the solution to the German problem as France saw it after World War Two. But it was only after a few years of the Mitterrand Presidency that France became a strong supporter of political integration. For a long time it had been loyal to the position taken by the former President, Charles De Gaulle, of "l'Europe des patries". Obviously then, no common goal was ever laid down, because that common goal did not exist.

This basic ambiguity is reflected, as you know, by the basic "imbroglio" (and the Italian word is the only one that fits which means something akin to "deceit"), that we have in treaties and in the relations within the Community. We have been talking for several years now of increasing integration, yet what has really been increasing is intergovernmental cooperation, which is quite a different kettle of fish. Admittedly, the bureaucracies in Brussels have been busy pumping out hundreds of papers, but the contents of their publications, rather than reflecting common actions to be taken upon decision by a single European body, have more often than not been writing up arrangements made amongst

states and their government representatives of the member States. And this "imbroglio" is more visible than anywhere else in the Maastricht Treaty. Just read it for yourselves! It is supposed to be the basis of the European Union. It was advertised universally as the Treaty widening the jurisdiction of the Community to new areas: research, social affairs, culture, immigration from third countries. I implore you to count just precisely how many common actions are provided for in these new chapters of Community jurisdiction. There are very few at all; mostly, you only find that it provides intergovernmental cooperation, and this in the Maastricht Treaty, after all. Again, for those who are familiar with the history of the Community, you'll be little surprised to discover this. Many years ago, one of the main goals of the Community was the harmonization of our national legislations in as many fields as possible. After tiresome and often fruitless negotiation, the harmonization platform was sharply curtailed and it was decided instead, that the main thrust for future development in the European legal framework would be mutual recognition. This was an enormous change in tactics. Mutual recognition means that beyond the threshold of common principles, each country is free to have more rigid regulations than others and to take the consequences of such regulation. The clearest example of this is in the area of taxation: why should we have common brackets for VAT? Instead, why not decide minimum levels, and allow any of our countries have higher brackets for its own products? Dumping will be avoided while the products with higher VAT rates will be less competitive and the market forces will be self-regulatory and in the end bring about uniformity. This made sense, in principle, but it meant that, without admitting it openly, we were passing from a declared aim of "political integration" approach to an unspoken "free trade area" approach, since harmonization was consistent with the former case, whilst mutual recognition implies acceptance of the latter.

Another form of "imbroglio" lay in the self-deceit amongst fellow Europeans, in relation to their expectations of Europe. They somewhat light-heartedly imagined that Europe would become one of the great protagonists of international politics, in a new international order. In a multipolar world, Europe had all the assets to become one of the leaders. At the same time, Europeans wanted, and were promised that Europe would give them a more comfortable habitat than they were being given in their national countries. This was based on the credo, that if your country can't provide you with what you need, then Europe will make up the difference. This was necessary and correct, as far as structural funds, cohesion funds, and lending support to weaker areas, were concerned. The fact is that our citizens were told that Europe would make them richer and happier, and that they would have more.

Now, if you want to be a leader of the world, you need to be richer, but you must also give more, not simply have more, and in this sense, there is a certain degree of inconsistency between a Europe that takes the responsibilities of world leadership, and Europe that wants primarily a better welfare state for all of us. In theory, you might have difficulties in seeing such inconsistency, in

practice, it has been seen by the terrible mess we have made in relation to the former Yugoslavia, where, inevitably, according to our prevailing cultural standards, the potential suffering that might be caused to the mothers of our soldiers, was much more important than our desire to act as leaders. American soldiers, too, have mothers. I am by no means making a statement to the effect that any military action of the Americans around the world is justified, but what I'm saying does imply that, if you want to become a leader in this very difficult world, there comes a moment when you must spend your money and take on the risks of leadership. If you don't want to risk anything, you will never be a leader.

What have Europeans done to date in former Yugoslavia? Until now, they have remained comfortably seated in their armchairs, and been terribly moved by television images, reporting on the mothers and children killed, tortured or wounded in shelling and cross-fire, and have become eager to accept in their hospitals in Italy, in France, in Great Britain, mostly children, possibly mothers, because we're more easily moved to compassion for them. At the same time, not one of our countries has been ready to send 10.000 men necessary to provide real guarantees of safe humanitarian outlets.

Let us turn now to consider monetary integration, the EMS. What has become of this? One of the foremost Italian writers on this subject, Tommaso Padoa Schioppa, has written on more than one occasion, that the EMS is based upon what he calls the inconsistent quartet: free trade, free movement of capital, fixed exchange rates, national monetary policies. It is, in fact, an inconsistent quartet, which we have lived with for many years, but one which could not work on a long term basis. Free movement of capital means that money can be transferred immediately and in whatever quantity required for a particular transaction, and wherever those who know how to earn it, wish to send it. How can Central Banks resist, with the far more limited resources available to them? And how can fixed exchange rates coexist alongside national monetary policies which put the existing parities under continuous strain? I am not saying that monetary integration is wrong, although here I closely follow the arguments of Milton Friedman, when he criticized the EMS. He was right to do so, in so far as he objected to fixed exchange rates, but monetary integration is another thing. It should mean a single currency, and a single currency goes beyond the arguments of Milton Friedman, who simply points out the inconsistencies in our mechanism.

Now, this very shaky Europe would have been capable of holding its ground, if only some of those factors stabilizing it had remained unchanged. First of all, the existence of communism, that had at least kept all of us united. We still aren't really capable of assessing the effects of the end of communism throughout Europe and in each of our countries. The previous fundamental division, the rigid ideological dichotomy, requiring us to make absolute choices, either one or the other, was so fixed that when we gave it up we were forced into realisa-

tion that there were many differences waiting to spring up, to claim recognition, that would bring about new conflicts. We are now having to facing up to this new harsh reality.

A second factor relates to the process towards free trade as a domestic process of Europe (and by domestic, I mean within the Twelve). This, too, has helped us to remain united, but from the moment the GATT negotiations made it clear that free trade was something that we should also extend to third countries, even the wonderful idea of Europe became less enchanting to many Europeans, and the old evil, defence of national interests, was once again unearthed.

The third factor, and perhaps more important than any other, concerns the steady and continuous growth we enjoyed throughout the entire decade of the eighties. Growth made the anti-inflationary policy of the Bundesbank the source of a virtuous circle, which embraced the other European countries, without causing negative consequences in them. Inevitably, the rate of growth of European countries, whilst steady, was lower than elsewhere, but this was partly due to the fact that they were forced by the strength of the DM to adopt measures designed to prevent inflationary expansion and to keep interests rates generally higher than in other parts of the world. But it worked, because inflation was held at bay and public spending was kept under tighter control. This strong position soon developed into a vicious circle with the onset of recession, further exacerbated by German reunification.

Initially, the effect of German reunification was positive, due to the investment that poured into the Eastern Laender, delaying the recession, which had already begun on the other side of the Atlantic. Shortly afterwards, however, the recession hit Europe as well. At that point, we were still caught up in the anti-inflationary policy of the Bundesbank, which it now needed much more than in the past. For the first time, the Germans themselves were faced with a real risk of inflation, and they needed capital more than in the past. So, they introduced high interests rates on their part, which necessarily meant higher interest rates on our part to keep up with the DM. Not only Italy was forced to do this, but also France, whose economy had healthier fundamentals than the Italian ones. When this happened, the inconsistent quartet opened the flood gates to a wave of speculation, which sought easy gain by weakening single currencies, with drastic effects on the system of parities which could no longer stand up to such pressure.

Many economists will tell you that in such a case, speculation had to be countered, because the market was wrong. They will also tell you that it was unreasonable to defend the Italian Lira, because the Italian fundamentals did not justify such a high parity, but that it was only dirty speculation to attack the French Franc or the Irish Pound, currencies having sound economies and good fundamentals.

Well, I share the principle that central banks should defend the currencies of countries that are attacked for sheerly speculative reasons, whilst currencies with weak fundamentals should not be defended with the same tenacity. But does this mean that the market was misguided or stupid when it also attacked the French Franc? My point is that the market had good reason, from its own viewpoint, for doing what it did. The market realized that, with an increasing recession and ensuing rise in unemployment, those interest rates were simply too high. Countries that were forced, as expected, to do something against unemployment, could not perform this task, under the pressure of such high interest rates, and if they wanted lower rates, they could not defend their parities. This was sensed by the market, and that's also why the French Franc was attacked, and why we had all this gigantic turmoil on European financial markets.

These then, were the fragile pillars upon which Europe had set about building its integrated society. Its fragility is the reason why it could not stand up to the burden of the difficult times we had entered by the turn of the decade; this led inevitably to the regeneration of a strong anti-European sentiment amongst its peoples. But before dealing with this final point, I shall go into some detail about some of the arguments I have just touched upon, and share some of my own experiences with you.

I will first say something more about the financial market and the devaluations of 1992. When I became Minister for the Treasury in 1987, the Italian Lira was under heavy attack. It was early September, and I remember Carlo Azeglio Ciampi, who was governor of our central bank at that time, calling me somewhat perplexed, and telling me: "Today we spent an enormous amount of money defending the Lira". "How much?", I retorted. Silence. Then, after a while, and with a broken voice, came the answer, "One billion dollars". Well, as you can imagine, this seemed an enormous amount even to me, one billion dollars in just one single day to defend the lira. Happily for us, at that time we still had administrative controls on currencies and on financial flows. We managed to repel that attack in three days and the Lira recovered very easily. Five years later, in September 1992, I was Prime Minister and Carlo Ciampi was still Governor of the Bank of Italy. The scenario repeated itself, the same calls, the same broken voice as five years earlier. How much a day this time? The answer was "Five billion dollars," "seven billion dollars". And later on, the Bundesbank spent even more than twenty billion dollars per day to defend the pound.

Keep these figures in mind. They give you an idea of the enormously increased power of the market and confirm once more that in the mid-ground between flexible rates and single currency there is no safe territory. Even if I had not been aware of it, I could not escape this realization, when September came, and experience repeated itself. It was Friday when we were called from Frankfurt, and told, politely but frankly, that from the following Monday it would be difficult to continue exchanging Marks for Lira at the current rates, because we were losing too much and it was costing them too much every day

to keep us in the limits. Our answer was: "Didn't we sign the Nyborg agreement together, according to which, when one of our members reaches the margin of the band, there would be an unlimited level of support by all the other central banks?" "Yes", they replied, "but this unlimited support cannot last for ever, and you are on the way to needing it for ever". Our reply was that, "We have a political deadline to respect, the 20th of September, when our French friends have their referendum on Maastricht, and they asked to all of us to avoid realignments before that date, because it would be politically destabilizing for the expected "yes vote". The Bundesbank were aware of the problem, but remained firm, declaring that they were ready to make a reasonable agreement. And so in the early morning of Saturday 12 September, two officials left Frankfurt and Bonn, and went to Paris, before continuing to Rome, where a provisional bilateral agreement was reached.

Under this agreement, that would have to be shared by the others, the DM would have been revaluated by 3 points, the Lira devaluated by 3 points, and the other currencies could find new parities somewhere in between those margins. These were the premises for the event that everyone was expecting: an extraordinary meeting of the Board of Governors for the Monday following the Bundesbank's scheduled reduction of the Lombard rate and the official rate.

We were satisfied, and started calling our colleagues in the other capitals. "Well, listen friends", we said, "this is a good deal, are you ready to accept it?". The French government considered it an "imperative" that the parity of the Franc should not be touched before the referendum (and even after it). John Major said to me that there was no reason for the Pound to devalue and concluded the telephone conversation with a "Good luck, Giuliano", that I still have in my ears. Not even Gonzales wanted to touch the Peseta, which was already having great problems. I was sure that some of them were making a mistake: the reduction of the German interest rates would have been more significant, had they devaluated their parities vis-à-vis the Mark. Speculation would continue and stability would not be reduced. But I was powerless: incredibly enough, most of the other currencies remained firmly attached to the DM and were revaluated by the same 3 points. The Lira remained alone in its devaluation.

It was quite a hard moment for me, and two days after, when I saw the Pound, after heavy attacks, passing before my very eyes and plummeting down and out of the EMS, I remained silent, but you can believe me, it was something that I had predicted. The monetary system was breaking up.

I want to give you some more details as to the reasons behind the violent reaction of public opinion, against what appeared to be too a centralized Europe. Was this really a problem coming from Brussels? People pointed their finger accusingly at Brussels - all those regulations coming from Brussels - an enormous quantity of regulations, with its knack for hair-splitting detail over small

and often irrelevant affairs. The conclusion they drew from it, was that Europe was being choked by a huge bureaucracy, but this was not necessarily the case.

Of course, there's the case, as Jacques Delors has pointed out more than once, of an EC Directive which dictates the distance at which pigs must be kept from each other during truck transportation, not only in intra-European movement, but also in domestic transportation. I'm an animal lover myself, so I have nothing against making pigs comfortable when they are being transported, but a European regulation for this seems a little extreme. However, this Directive did not come from the bureaucrats of Brussels, but had been decided by Environment Ministers of our national States, who had been ready to accept whatever idea came from the green movement throughout Europe. Had they made the proposal at the national level, each of them would have faced objections, or even opposition by other ministers, as this naturally happens in every Cabinet, where different public interests are represented. Being alone in Brussels, the Environment Ministers could take their decisions without obstacles.

In Brussels, we have a rather peculiar Council of Ministers that brings only ministers sharing the same competencies around the table, which means that these people have the enormous satisfaction of taking decisions about whatever they have in mind without having to deal with the interference of their colleagues at national level. The first consequence is that countries that would throw out certain proposals at national level, find themselves forced to accept them in Brussels, because all the Ministers of Agriculture meet without the presence of the Ministers for the Environment, or vice versa, and establish their unilateral rules with as many details as possible, taking full advantage of the opportunities befalling them: these are magic moments you would never even dream of in your own country. The second consequence is that the Community jurisdiction has in some areas expanded beyond its reasonable limits.

The picture of Europe, as seen by the eyes of public opinion, is now complete: unhappily, it is a contradictory and gloomy one.

People believe that there is too much of Europe, due to this disturbing image of excessive centralization, without this being effectively the case, which has given rise to the sometimes uncompromising and arrogant reassertion of national, regional and sometimes ethnic identities.

On the other hand, there is too little of Europe, as has been seen in monetary policy and even more poignantly in the former Yugoslavia. Europe was supposed to be a leader and, yet it turned out to be impotent, with its ministers leap-frogging from one capital to another, without really getting anywhere. The loss of credibility was astonishingly high.

And then there's the excessive cost of Europe, because of the recession, because of the severe policies brought about by the realignment of monetary policy, because of the higher competition after the predictable conclusions of the GATT negotiations (I recall the fierce and sometimes violent protest of French farmers). When our citizens are told, that to be part of Europe, they must accept this, they must loose that, they must pay for this and that, their final reaction might reasonably be that, "Europe can go to hell, this Europe, why should I be part of into it?"

I want to conclude by commenting briefly on the recent decision of the Bundesverfassungsgericht (German Constitutional Court) in relation to the ratification of the Maastricht Treaty, which demonstrates that the mood has changed, and not only in public opinion. As we all know, the principle accepted by national courts throughout Europe, is that Community regulations take precedence over national statutes and rules as long as they do not infringe the fundamental principles of our national constitutions. That is the basic guideline given to national judiciaries at any rate, and one which has given Community legislation undisputed priority over national laws. The German Constitutional Court, however, advanced another principle two weeks ago, stating that Community legislation could prevail, provided that they comply with the principle of subsidiarity and did not go beyond it. What does this mean? It means that the German Constitutional Court - but I suppose any other national court with jurisdiction to interpret Community provisions for that matter - will scrutinize each Community regulation and will accept it, only after hearing evidence to the effect that it would not be effective if adopted at the national level. With this precedent, one of the very pillars of the existing European integration might now be endangered, since the principle of subsidiarity might be interpreted more and more to express a reverse trend towards an unforeseen formula for European (dis)integration.

This is where Europe has come to at the moment. Europe, as I said, had inveterate weaknesses to its structure, that had been hidden for too long. Let us face reality as it is now, and aim from this point on towards a clearer and healthier Europe. Is it still possible? Are not we closer to disintegration than to integration? These are the questions I will try to answer to next time.

Prospects for the construction of a European Union

I closed my previous talk, promising that next time I'd take a closer look at the question of "where we might go from here". I've been able to lay my hands upon a lecture given by George Soros to Aspen Berlin at the end of September, entitled, "Prospects for European disintegration". George Soros, as you know, is considered a Guru of the financial world. He became very famous a few months ago in Europe, as the presumed protagonist of the devaluation of the British Pound, by betting heavily against it and pushing it out of the EMS. After that experience, he said that he had chosen not speculate against the French Franc, because he did not want to be considered an enemy of Europe. And he gave this quite interesting lecture, which is by no means discouraging, as you might be inclined to believe from his basic argument: the peak of the process of integration in Europe was reached, when the Maastricht Treaty was signed. Now we are in a process which seems more like disintegration than integration, but it is always possible to reverse this trend, because it is similar to being on a mountain peak, where you could either fall down one side or the other.

To demonstrate the nature of this process, Soros points to the same situations we analysed in the previous lecture, namely, recession and unemployment. Recession and unemployment bring social unrest and also political discontent, neither of which favour a process of integration. On the contrary, they put pressure individual countries to take care of their national interests, and to ignore European views.

Secondly, and obviously from this point of view, that the crisis of the EMS, might even accentuate the divergencies between our economies. The crisis needs cooperation, the actual cure for which might be competition, competitive devaluations, competitive interest rates and so on.

The third factor concerns the weakening of the European construction vis-à-vis the problem of enlargement and the interest of single countries in retaining their own individual status inside the Community, the danger of creating an "à la carte Europe", as was stated after the Danish compromise had been reached in Edinburgh, that might be extended to other countries. This danger could be minimalised by a strong united Europe and, on the other hand, could be compounded by a weak one.

The fourth element underlined by Soros relates to instability of countries surrounding Europe, namely from Eastern Europe. Instability outside Europe ag-

instability within the Community, and heightens diversities within. Let us look back to the mistakes of the Community vis-à-vis the former Yugoslavia and how the recognition of Croatia by Germany, and then Slovenia by other countries, contributed to the creation of different foreign policies, to the detriment of developing a common one. Why is this so important? Because European countries tend to have differing positions, which can undoubtedly be explained by a long tradition of diversity, of vitality through diversity. I suppose that most of you have read the outstanding book by Paul Kennedy, "The Rise and Fall of Great Powers", which underlines the differences between: on the one hand, countries such as India or China covering a huge surface area, but dominated by single dynasties, that after a while were doomed to decay, because such vast empires did not have the necessary vitality to keep up with change and development; on the other hand, there's the case of Europe, above all, mostly Western Europe, whose peoples hid in their valleys, and thus nobody ever succeeded in conquering the entire continent. Here continuous competition became the main source of modern civilization, of industrialization, of growth. This is, of course, the very general background to Europe, but it is important to keep it in mind, because whenever the process of integration loses momentum and instability prevails, the aged figure of our historical diversity is resurrected. And each country defends itself.

The final point is referred to by Soros as the emotional amplifier. When things go wrong, there is an emotional amplifier, that makes the negative trends stronger than they actually are, charging the public with irrational emotion, which eventually becomes part of public policy. The example given by Soros, and not only by him, relates to the French reaction to the United States, following the inevitable devaluation of the French Franc. After devaluation, it would have been rational to admit that interest rates were too high, given the high level of unemployment and the urgent need of less restrictive policies. The market was aware of this and it made the French position in the EMS weaker than its economic fundamentals actually indicated. But the French Government and the French press preferred a totally different explanation. They openly denounced an Anglo-American conspiracy against France and the Franc, as symptomatic of the cultural invasion propagated by the Americans in Europe, with their movies and their soap operas, which had been courageously combatted by former Minister Lang and other open-minded Europeans. "Who could ever imagine that respected officials would really believe in an Anglo-American conspiracy?" This is a question that brings home the far-reaching potential of the so-called "emotional amplifier".

These were the factors, then, in Soros' mind, that might lead us to disintegration. I am personally convinced that: a) this is possible, but not inevitable; b) we can still reverse the trend; c) a high standard of political leadership is needed to do it; d) there should be three main thrusts to our action: the first one is strengthening the EMS, the second, is the adoption of common actions with the aim of restoring the sense of the positive functions of Europe, the third one, is to

agree upon the institutional changes necessary to get rid of the absurd dilemma about "too much of Europe/ too little of Europe", which we are caught up in at the moment.

The first area: the EMS. The recent experience has forced us to accept that fixed exchange rates are not tenable for a long time, given the current structural basis to free movement of capital. In the long run, market forces are stronger. Consequently, either we go back to flexible exchange rates or we go rapidly towards a single currency. My choice would be to go rapidly towards a single currency, accepting two points that have never been accepted to date: the first one is that the complete elimination of economic divergencies is not a pre-requisite, the second, is that a special role will have to be accorded to the Bundesbank in the European System of Central Banks.

Divergency was an argument that embarrassed me years ago, when I was representing the country with the highest public debt, and others, namely Germany, were probably thinking that I saw the single currency as a comfortable way of having them pay my debts. Today, divergencies are spreading throughout Europe, Germany itself is involved, and their real importance might be assessed less unilaterally. With a single currency, divergent countries would only be able to attract capital for their bonds if they were free to increase their domestic interest rates. Would they really be free to do this if a European Central Bank operated effectively? Will it not occur to them, that if they do not make their domestic costs more flexible, that they will be abandoned by the market?

Of course, given Europe today, we cannot imagine a European Central Bank with the Bundesbank having more than a twelfth share in decision-making. We have to be realistic about this and presume that the Bundesbank will never be satisfied with only having being chosen as the model for the new institution. "It makes all the difference in the world" and this is my last quotation from Soros' lecture in Berlin, "whether you service the model or whether you are actually in charge, and that is what the Bundesbank has actually in mind". The problem has a solution. When the Federal Reserve was created in the U.S., the New York Reserve already had a paramount role in the country. It is also true that it never lost it, not even afterwards. That role is still formally and substantially recognized in the Federal System and we could find a good precedent for it in our future.

These are difficult obstacles, as you can see, that a strong European leadership (I insist on this) might be able to overcome. Is there a way to do it? Here, I can submit to you at any rate a foreseeable economic trend and a proposal, both of which might help.

What we can foresee is that Italy, France and Great Britain, all of whom want to escape their present economic recession, will keep their interest rates low,

which could in turn force Germany to lower its own rates. At the same time, encouraging predictions for recovery might be heard increasingly from America. In a couple of years, this could create a totally different atmosphere throughout Europe, an atmosphere - take note of this - created not by European cooperation, but by what reality gives us now, competitive political economies by single countries, and yet encouraging the return to an optimistic view for future convergence through growth. At this point, the step forward to a single currency could be decided overnight.

In the meantime, the way for this process has to be prepared and, here, my proposal comes to the question of the correct and effective role of the European Monetary Institute, that is expected to initiate its activity from the beginning of 1994.

Article 109 (f) of the Maastricht Treaty states that the Institute should strengthen the cooperation between central banks and strengthen the coordination of monetary policies of member States, with a view to achieving price stability. Now, this is something that should be given an actual meaning, beyond the words of the Treaty. This would probably require strong political support by the heads of the European Governments, because, believe me, central banks have to be independent of the executives of their countries, yet at the same time, they cannot be left to their own devices. What has to be avoided is a restrictive interpretation of Article 109 (f) of the Treaty, which might limit the scope of the Institute to the compilation of documents and other bureaucratic duties for a further stage, that might never arrive. The second stage will be useful only if used with the clear and firm goal of preparing a single currency and consequently, with the necessary political will for giving cooperation and coordination the opportunity to succeed.

The second area: common actions. Here, it is more evident that we have the opportunity to reverse the trend by using the existing tools we have in our hands to date, namely, principle of subsidiarity. In the last couple of years the principle of subsidiarity has been used to reduce integration, and to give powers back to the member States. You wouldn't have the Danish exception today without this interpretation of the principle of subsidiarity, nor the widespread opinion that Community directives and regulations are excessive. Why don't we consider subsidiarity from the opposite point of view, that is, as the principle that allows us to decide at the European level, the common actions clearly understood by any European citizen, because they are useful to him, and it is only at the European level that they can be adopted? This means two things: taking away a great part of the present Community decision-making powers, and concentrating on just a very few of them, but also allowing the Community to adopt common actions in these limited matters.

Those who are familiar with the growth of federal states, know that such growth depends on a very few key features. Do you remember the interstate

commerce clause of the US constitution, which simply allows Congress to regulate goods that are passing through the channels of interstate commerce? At the beginning of the century, when the first social issues, such as the question of permitted daily working hours of women and children, could no longer be ignored, no member state dared to take the initiative, because if New York did it and Massachusetts did not, the products of New York would have been less competitive. At that point, Congress stepped in, there were initial difficulties, but at the end, even the States accepted a broad interpretation of the interstate commerce clause, because it was convenient for them to do so. Only Congress, with its superior level, could adopt that uniform regulation which put all of them, and all their industries, on the same footing.

Now, this would be a wonderful way of taking advantage of the principle of subsidiarity, and we could do the same in areas that create similar problems for us: immigration is the first area, social protection might be regarded as another. I'm touching upon very controversial issues, and courage is needed to regulate them at the European level. That's why, I repeat, without true political leadership nothing of what I am saying can come true. This is the only way you can convince Europeans that Europe is useful.

None of us can regulate immigration unilaterally in a continent where freedom of movement is guaranteed from country to country. We have already had difficulties with each other; Italy was more flexible than France years ago. Germany had a very broad concept of political asylum, which was changed very recently. The United Kingdom is and wants to remain more rigid than others. It should be clear that this is the typical case where a regulation could only be effective, if it were uniformly applied, and therefore adopted at the Community level.

Secondly, and this area is even more difficult: social protection. One of the basic reasons for the reduced competitiveness of the European industries vis-à-vis the Far Eastern, and in some ways the American ones, is due to the level of our social protection. Social protection is part of our culture, of our history, of our common feelings throughout the Continent. We are rightly determined to preserve it. However, with the increase of our average income, a growing number of us must be called to use private savings to preserve that protection which presently depends mostly on public budgets. It is unreasonable to care for the same percentage of the total population that was cared for when our incomes were much lower than they are now through public expenditure. Can any of our countries intervene in this area alone? Isn't it better for all of us to define a homogenous level of social protection and to establish it from the Community level? As with immigration, this is equally a European problem, because it is a problem that concerns the competitiveness of European industry.

There might be also a third area of common European action, albeit quite different from the previous one, which is even more important to shaping a

common European identity: European citizens' rights. As Europeans, we have to believe in a common identity, and individual rights are of enormous value. Again, we have to rely upon subsidiarity, and create rights of European citizens that mean something, and that will not attenuate national identities, but add to it, establishing new and more substantive rights. By using the example of America again, you should remember how important it was for all those people coming from different countries, from different cultures, from different religions and ethnic groups to be Americans and to be identified as such through the new individual rights they were entitled to as American citizens. This gave enormous momentum to the American identity in the first decades of the century. Can we imagine something similar, even if on a reduced scale, in Europe?

The right to vote where you are a resident is provided for by the Maastricht Treaty. A lot of, let's say, "random rights" have been established through jurisdiction of the European courts based on previously enacted European legislation. What about a sort of bill of rights added to the Treaty, that might also include a summary of the existing rights, to the effect of giving our citizens the immediate feeling that they gain something from being Europeans?

This brings me to the third and final area: institutional changes that might usefully be prepared by the Intergovernmental Conference planned for 1996. The Treaty of Maastricht gives the Conference the mission of elaborating the adjustments to be made relating to enlargement. This might seem a very low level of institutional reform, but it at least provides the forum to bring about far-reaching reforms. Consider, for example, the issue of membership to the Commission. Since we cannot predict any further addition of representatives of single countries (with further splits of the Community portfolios), we might be forced to renovate the Commission, deriving it partly from the political groups of the European Parliament and giving room to representatives of national States for the remaining part only. This change, due more to necessity than political choice, would inevitably imply a higher degree of political integration. At that point, why not correct the basic defects of the entire construction, by gearing it, more firmly, to the fundamental principles of the Treaty, the first of which is subsidiarity? Two are the basic defects: too many areas of responsibility, most of which are areas of intergovernmental cooperation and not of common action; and secondly, the very cumbersome procedures. We have touched upon the first one, let me spend a few but very frank words on the second. These incredible procedures are due, in my view, to the political necessity to give more room to the European Parliament, leaving however the bulk of the decision-making powers in the hands of the Council of Ministers and the Commission. The consequence is that the procedures are lengthy; Parliament is involved, but its real weight is, and remains very minimal. The new, and great leap forward to date has been the joint decision-making procedure, provided for under the Maastricht Treaty. Well, admittedly, it is a procedure with fifteen or sixteen stages, with a proposal of the Commission that goes to the Council, then it is passed on to the Parliament - that may amend it by an absolute majority vote, then it goes back to

the Council, then to the Commission, then back again, and so on and so forth. At the end of it, such a long period of time might have elapsed, that you don't even remember why you began this kind of procedure and what kind of problem it sought to resolve in the first place.

My proposals for institutional reform refer to both defects at the same time. First of all, we should cut back the Treaty and reduce the areas of European jurisdiction to the few basic fields in which common action makes sense under the principle of subsidiarity and which seems plausible to fellow Europeans. Obviously, national states should pass these areas to the paramount responsibility of the Community, which means that immigration, social protection, defence, security and foreign policy, would almost completely exhaust those responsibilities. Secondly, in these few areas, we should adopt the system applicable to our national legislatures: innovative, primary legislation should be decided upon, unequivocally and definitively, by Parliament; any minor, secondary rule should be left to the Commission, without tortuous procedures.

This makes sense in institutional terms, it makes sense also politically, because it implies a reasonable trade off. Those who want political integration have to accept a limited European jurisdiction. Those who want to limit European jurisdiction must accept it through a politically integrated framework.

That was my concluding remark, but let now me add two footnotes. I am perfectly aware of the fact that the scheme I am proposing does not cover all the aspects of a democratic Europe: on the one hand, there is the question of guaranteeing the necessary protection of individual rights, and towards the end of the process, a more sophisticated relationship must be envisaged between the European Court and national Courts; but this is something that judicial experience will be shaping, as is already the case. On the other hand, there are the peripheries of European democracy, by which I mean the regions, municipalities, social institutions, all of which are necessary to satisfy the need for diversity and the advantages of decentralized responsibilities. These too are essential features, but they would be the features of a European mess, without erecting the fundamental pillars I have referred to.

My last footnote deals with the question of Europe at two speeds: will all the twelve countries, and possibly new additions for that matter, share the new construction in its entirety? The question of a single currency might be a problem, but not only this: common actions might be taken that are not easily applicable to all; there might also be, as a consequence of both problems, the question of choosing the countries to be directly represented in the Commission.

As I said earlier, the remaining economic divergencies do not carry any real advantages for the weaker and more indebted countries, if we introduce a common and effective monetary policy. On the contrary, it might lead to political and economic suicide for these countries to accept the single currency. This is

the main reason why further steps to unite Europe could partially divide the member States into two groups. I do not consider this as an obstacle. As President Ciampi has said repeatedly, let us prepare the building and allocate a flat to each of us. Those who are ready to enter the building first will do so first. The others know that their flats are there waiting to be occupied. It will be up to them, to their capacity not to remain outside, to share the benefits of integration which should not however be jeopardized by their delayed entry.

Biographical note

The author is undoubtedly best known for his outstanding political career. As a Member of Parliament from 1983, GIULIANO AMATO held key positions in consecutive governments, as Undersecretary of State (1983-1987), Deputy Prime Minister and Minister for the Treasury (1987-1988), Minister for the Treasury (1988-1989), and was appointed Prime Minister from June 1992 to the end of April 1993.

As an academic, the author has held a number of teaching posts, at the universities of Modena, Perugia and Florence, and is currently Full Professor of Italian and Constitutional Law at the University of Rome "La Sapienza", School of Political Science. For the academic year 1994-95, Professor AMATO is a part-time professor at the Law Department of the European University Institute.

GIULIANO AMATO is the author of a number of books focussing in particular on constitutional and institutional issues, yet his fields of interest are many, including, theoretical and comparative studies as well as economic and political topics.

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